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# JAPAN'S DISTRIBUTION SYSTEM: THE NEXT MAJOR TRADE CONFRONTATION?

Summary

Is Japan's distribution system the ultimate barrier to U.S. exports of manufactured products, particularly consumer goods? Former Secretary of Commerce C. William Verity certainly is not alone in suggesting this possibility. A number of legislators involved in drafting the 1988 Omnibus Trade and Competitiveness Act think the complicated Japanese distribution system is an ideal candidate for a Super 301 probe. Even the Japanese government acknowledges that the wholesale and the retail sectors need to be reformed to facilitate economic restructuring and trim the high cost of living.

Japan's complex distribution system unquestionably is a major deterrent for American manufacturers trying to crack the market, but their problems are not unique: the network discriminates against all market newcomers, domestic as well as foreign. More important, economic forces are starting to reshape the wholesale-retail structure and how the system operates. While these changes are occurring too slowly to mollify frustrated American legislators and economic policymakers, challenging the system through a trade complaint will not accelerate the process significantly because restrictive government policies are only part of the problem.

## U.S. Manufacturers Still Fighting Uphill Battle

The value of the dollar has dropped almost 50 percent against the yen since September 1985. On paper a realignment of this magnitude should boost

Japanese consumer and business demand for a wide variety of now more competitively priced American manufactured products while buoying industry's already big purchases of U.S.-produced agricultural and industrial inputs. Much to the disappointment of trade officials and businessmen, however, Japan-bound exports have followed only the broad outlines of this script.

By any measure the growth 'n Japan's imports of manufactured products since 1985 is nothing short of spectacular. In the space of just three years purchases more than doubled, jumping from $36.4 billion to an estimated $85.5 billion in 1988 (see Table 1). In the process the closely tracked relationship between manufactures and total imports climbed from 28.1 percent to 45.6 percent. But what is a definite public relations plus for Japan elsewhere is greeted less enthusiastically in the United States for the simple reason that products marked Made in USA have not benefited fully from the upsurge in offshore purchases of manufactured products.

Table 1: Japan's Imports of Manufactured Products, 1980 and 1985-88

(in millions of dollars, c.i.f. value)

| | 1980 | 1985 | 1986 | 1987 | 1988* |
|---|---|---|---|---|---|
| Chemicals | $6,202 | $8,072 | $9,733 | $11,845 | $13,486 |
| Manufactured Goods Classified by Material | 10,579 | 10,886 | 12,390 | 18,055 | 24,980 |
| Machinery and Transport Equipment | 8,756 | 11,106 | 13,283 | 17,264 | 22,456 |
| Miscellaneous Manufactures | 5,031 | 6,349 | 8,634 | 13,396 | 17,030 |
| Manufactured Imports | 30,568 | 36,413 | 44,040 | 60,560 | 77,952 |
| Total Imports | 140,528 | 129,539 | 126,408 | 149,515 | 171,041 |
| Manufactures/Total Imports | 21.8% | 28.1% | 34.8% | 40.5% | 45.6% |
| Reference: United States | | | | | |
| Manufactured Imports | $131,373 | $258,225 | $293,823 | $325,245 | $361,614 |
| Total Imports | 252,804 | 361,626 | 387,082 | 424,082 | 459,565 |
| Manufactures/Total Imports | 52.0% | 71.4% | 75.9% | 76.7% | 78.7% |

*January-November only for Japan.

Source: Japan Tariff Association, The Summary Report: Trade of Japan and U.S. Department of Commerce, Highlights of U.S. Export and Import Trade.

The increase in Japan's imports of capital goods from the United States, while not as great as might be expected, falls within the acceptable range given that price is just one of several key variables weighed in corporate buying

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decisions. More troubling is the relatively poor performance of American-made consumer goods. Already behind when the dollar started to weaken, U.S. consumer nondurables and especially durables have lost ground in the Japanese market to competing products from Europe and Southeast Asia (see Table 2). Admittedly, consumer goods are the weak point of American industry. They do not have the cachet of European imports ranging from cars to clothing, which have soared in line with the spending boom in Japan on luxuries. Nor can the United States match Southeast Asia's costs for labor-intensive goods like clothing, the main product behind the 3.5-fold surge in Japanese consumer goods imports since 1985.

Table 2: Japan's Imports of Capital and Consumer Goods, 1980 and 1985-88

(in millions of dollars, c.i.f. value)

| | 1980 | 1985 | 1986 | 1987 | January-November 1988 |
|---|---|---|---|---|---|
| Capital Goods | $9,096 | $11,541 | $13,229 | $16,328 | $20,332 |
| United States | 4,888 | 7,504 | 7,785 | 9,025 | 11,203 |
| European Community | 2,247 | 1,845 | 2,763 | 3,606 | 4,091 |
| Southeast Asia | 790 | 1,179 | 1,473 | 2,313 | 3,294 |
| Consumer Nondurables | 2,677 | 3,319 | 4,711 | 7,718 | 9,814 |
| United States | 322 | 314 | 403 | 857 | 1,091 |
| European Community | 697 | 692 | 1,008 | 1,400 | 1,777 |
| Southeast Asia | 1,167 | 1,574 | 2,368 | 4,093 | 5,074 |
| Consumer Durables | 2,395 | 2,974 | 4,601 | 7,977 | 10,725 |
| United States | 561 | 590 | 740 | 1,086 | 1,522 |
| European Community | 855 | 1,105 | 1,949 | 3,575 | 4,774 |
| Southeast Asia | 672 | 873 | 1,393 | 2,538 | 3,440 |

Source: Japan Tariff Association, The Summary Report: Trade of Japan.

Even after factoring in these competitive drawbacks, U.S. government officials and industry executives still are baffled by the relatively slow expansion of American consumer goods exports to Japan. In an earlier period they would have blamed tariffs, quotas, standards, testing and certification procedures for negating a large part of the benefits of a weaker dollar. But Japan's tariffs on manufactured products average less than those in the United States and Europe; it has no quantitative restrictions on consumer goods; and standards, testing and certification procedures, while a continuing problem for some imports, are much less of a factor than before 1985. Japan's buy-national psychology -- the traditional fallback explanation -- also carries much less weight. It cannot be discounted entirely, but consumer attitudes toward foreign products are changing as result of the appreciating yen.

Analysts today are more likely to fault American producers and Japanese importers for not passing through the full benefits of the declining dollar. Some U.S. suppliers no doubt saw the exchange rate realignment as a chance to

raise prices and rebuild profit margins battered in the first half of the 1980s by the strong dollar and the recession at the start of the decade. Equally true, some Japanese importers unquestionably siphoned off part of the dollar's drop as windfall profits. Nevertheless, studies on both sides of the Pacific indicate that these practices at best provide only a partial explanation of the comparatively weak showing of American consumer goods in Japan since the fall of 1985.

That leaves an old standby -- Japan's distribution system. The multilayered, inefficient wholesale-retail network falls outside the usual definition of a trade barrier in that it is not designed to block or restrict competition from abroad. From Washington's perspective, though, it makes no difference whether the problems confronting American consumer goods suppliers in Japan are the intentional result of government and private-sector actions or a byproduct of the system's operation. Neither does it matter that Japanese companies new to the market have similar difficulties. The bottom line is that the current distribution system limits the availability of consumer durables and nondurables from the United States and jacks up the prices of those products that do make it onto store shelves.

An Economic Laggard

Multilayered, complex, high-cost, inefficient. That is just a sampling of the critical adjectives invariably used by U.S. government officials, businessmen and journalists to describe Japan's wholesale and retail industries. A glance at any list of distribution-sector indicators for Japan and the United States underscores the fact that, here at least, American perceptions of the Japanese economy match the realities.

For starters, Japan, with only half the population of the United States, has roughly 5 percent more retail outlets (see Table 3). A majority of these 1.6 million shops (57.7 percent at the time of the 1985 commercial census) has only one or two workers. Conversely, just 2,000-plus stores, generally affiliated with department store or supermarket chains, employ 100 or more people. While large operations generate a greater proportion of retail sales than all the mom-and-pop shops combined (14.6 percent versus 12.7 percent in 1985), their share of total turnover falls far short of the comparable number for big American retailers. In the United States multiunit operators account for well over 50 percent of the retail business and more than half of that volume comes from stores employing over 100 workers.

A correspondingly large number of wholesale establishments is needed to supply the maze of retail shops (see Table 4). Three-fourths of these 413,000 or so units are small, employing fewer than 10 workers. Their share of total sales is equally limited, perhaps one-sixth. At the same time, the 2,700-plus establishments with more than 100 employees account for about two-fifths of wholesale turnover. But this ratio and the underlying high average sales figure are misleading indicators of concentration in the wholesale industry since the numbers are skewed by the sales results for Mitsui & Co., Ltd., Mitsubishi Corp. and Japan's other huge trading companies. Outside of these firms, few Japanese wholesale establishments have annual sales of more than $1 million. In the United States probably half of all wholesale locations do at least this much business each year.

Table 3: Comparison of Retail Industries in Japan and the United States[1]

| | Japan | United States |
|---|---|---|
| Number of Retail Outlets | 1,628,644 (1985) | 1,541,500 (1982) |
| Retail Outlet/Wholesale Establishment Ratio | 3.94 (1985) | 3.71 (1982) |
| Number of Employees | 6,329,000 (1985) | 9,802,000 (1982) |
| | n.a. (1988) | 12,846,000 (1988) |
| Number of Employees per Outlet | 3.9 (1985) | 6.4 (1982) |
| Population per Retail Employee | 19.1 (1985) | 23.7 (1982) |
| | n.a. (1988) | 19.2 (1988) |
| Annual Sales (millions of dollars[2]) | $426,423 (1985) | $961,325 (1982) |
| | $891,682 (1988) | $1,454,608 (1988) |
| Annual Sales per Outlet[2] | $261,827 (1985) | $623,630 (1982) |
| Annual Sales per Employee[2] | $67,376 (1985) | $98,074 (1982) |
| | n.a. (1988) | $148,399 (1988) |
| Annual Sales per Square Foot of Selling Space[2] | $600 (1985) | n.a. (1982) |
| Per Capita Sales[2] | $3,523 (1985) | $4,134 (1982) |
| | $7,262 (1988) | $5,910 (1988) |
| Sales/Inventory Ratio | 10.3 (1985) | 7.9 (1985) |
| | n.a. (1988) | 7.3 (1988) |

[1]The 1988 data are not directly comparable with the figures for 1985 (Japan) and 1982 (United States), which are census years. Excludes eating and drinking establishments in both countries.
[2]The 1985 yen figures were converted at the year's average exchange rate of Y238.54=$1.00; the comparable conversion factor for 1988 was Y128.15=$1.00.

Source: Japan, Management and Coordination Agency, Japan Statistical Yearbook and Monthly Statistics of Japan; U.S. Department of Commerce, Statistical Abstract of the United States and Survey of Current Business.

What really differentiates Japan's distribution system from its American counterpart, however, are the multiple tiers of wholesalers. In this country manufactured products move through a single layer of wholesalers at most, generally merchant wholesalers that sort, assemble, grade and store the goods for resale to retailers and commercial and institutional customers. An estimated 30 percent of the U.S. manufacturing sector's output bypasses the wholesale industry entirely, going directly to retail outlets. In Japan merchandise as a rule passes through more than one wholesaler on its way from the factory to the consumer. Although these resales normally are just paper transactions, each wholesale level adds its own markup to the product. That practice explains why the wholesale/retail turnover ratio in Japan consistently is double the comparable U.S. figure.

Although American analysts zero in on the inherent inefficiencies of Japan's wholesale-retail trade structure, the complex distribution system represents a rational response to domestic economic realities. An extensive network of neighborhood stores, for example, is not just a convenience for Japan's primarily urban population; it is more like a necessity. The traffic congestion and limited parking facilities in major metropolitan areas, the limited amount

Table 4: Comparison of Wholesale Industries in Japan and the United States[1]

| | Japan | United States |
|---|---|---|
| Number of Wholesale Establishments | 413,016 (1985) | 415,800 (1982) |
| Number of Employees | 3,998,000 (1985) | 4,985,000 (1982) |
| | n.a. (1988) | 6,156,000 (1988) |
| Number of Employees per Establishment | 9.7 (1985) | 12.0 (1982) |
| Population per Wholesale Employee | 30.3 (1985) | 46.6 (1982) |
| | n.a. (1988) | 40.0 (1988) |
| Annual Sales (millions of dollars[2]) | $1,795,468 (1985) | $1,997,895 (1982) |
| | $3,502,154 (1988) | $2,729,000[3] (1988) |
| Annual Sales per Establishment[2] | $4,347,380 (1985) | $4,804,942 (1982) |
| Annual Sales per Employee[2] | $449,092 (1985) | $400,781 (1982) |
| | n.a. (1988) | $443,307 (1988) |
| Wholesale/Retail Turnover Ratio | 4.21 (1985) | 2.08 (1982) |
| | 3.93 (1988) | 1.88 (1988) |

[1]The 1988 data are not directly comparable with the figures for 1985 (Japan) and 1982 (United States), which are census years.
[2]The 1985 yen figures were converted at the year's average exchange rate of Y238.54=$1.00; the comparable conversion factor for 1988 was Y128.15=$1.00.
[3]Estimated using actual sales by merchant wholesalers in 1988 ($1,637.4 million) and the assumption that merchant wholesalers generate 60 percent of total wholesale turnover.

Source: Japan, Management and Coordination Agency, Japan Statistical Yearbook and Monthly Statistics of Japan; U.S. Department of Commerce, Statistical Abstract of the United States and Survey of Current Business.

of storage space in most homes, the Japanese penchant for fresh fish and produce and the premium placed on personalized service all encourage consumers to patronize nearby shops.

These also are logical reasons for the small size of most stores. The high cost of real estate in big cities and the generally limited fixed and working capital of retailers are the obvious ones, but they are not the only size constraints. The sole proprietors that operate the vast majority of Japan's retail outlets often lack a formal business background and consequently do not have the managerial and marketing know-how to run a larger store. Finding enough workers in the increasingly tight Japanese labor market is another complication.

Similarly, the multitiered organization of Japan's wholesale industry is an outgrowth of the problems of supplying the enormous number of small retail outlets. Local wholesalers handle the frequent, small-lot deliveries that mom-and-pop stores require because of their limited storage area. They are supplied in turn by larger regional or national distributors that negotiate directly with manufacturers. But wholesalers do more than ensure a steady flow of merchandise from manufacturers to retailers. They supply credit and long-term financing to their customers, provide management and marketing assistance and take back unsold goods. Wholesalers, in short, assume much of the normal risk involved in retailing.

Small and midsized wholesalers obviously could not take on this pivotal function without the backing of big distributors. They in turn look to particular manufacturers for support, completing the web of dependency that ties the bottom of the distribution chain to the very top and simultaneously puts manufacturers in a position to control the brands stocked by neighborhood retailers and the prices charged. To some analysts this relationship, rather than the complex nature of the distribution system, is what makes it hard for foreign suppliers and domestic newcomers alike to break into the Japanese market.

Winds of Change

Although not immediately obvious to outsiders, Japan's distribution system is moving in the direction of greater efficiency. Retail outlets and wholesale establishments both peaked in number in 1982 and were down 5.4 percent and 3.7 percent, respectively, at the time of the 1985 census of commerce. Not surprisingly, the main casualties were sole proprietorships, especially mom-and-pop stores and wholesale locations with fewer than 10 employees. About 96,000 of the 1,036,000 mom-and-pop shops in operation in 1982 were out of business three years later -- a contraction that trimmed the proportion of retail stores run by sole proprietors from 74.7 percent of the total to 72.4 percent but that also produced the first postwar decline in the retail floor space number.

The 1988 commercial census, due out at the end of March, is expected to show some additional consolidation in both the wholesale and the retail sectors. Although retail industry analysts doubt that the drop in the overall number of stores will be as large as the 1983-85 decline, they say the figure for mom-and-pop shops will be down again by a significant margin. Part of this attrition is an inevitable result of the increasing age of many store operators who went into business during the boom years of the 1960s and 1970s. Nevertheless, economic forces clearly are ripping holes in the safety net distributors provide for retailers.

Soaring land prices in commercial districts are one obvious cause of the hard times rocking small retailers, but the same factors that reshaped the retail landscape in the United States -- increasing competition from larger outlets as well as from newer types of merchandisers and changing consumer attitudes toward the trade-off between personalized service and lower prices -- are at work in Japan. The most direct challenge to mom-and-pop stores, especially the huge number selling food, has come from franchise chains of convenience stores and minisupermarkets with their centralized purchasing, inventory control and accounting. Paced by industry leader 7-11, the 13,450 convenience stores surveyed by Nihon Keizai Shimbun increased their sales 17.5 percent during FY 1987 to Y1.8 trillion ($12.8 billion at FY 1987's average exchange rate of Y138.35) and 6,574 minisupermarket outlets upped their volume 3 percent to nearly Y1.2 trillion ($8.4 billion). The combined figure was equivalent to perhaps one-fourth the business done by mom-and-pop shops that year, but it was generated by roughly 98 percent fewer stores.

Small retailers also are losing customers to discount outlets. Like convenience stores, many discount stores are not much bigger than Japan's traditional small shops, yet their independent distribution networks give them a big pricing edge. Japanese consumers, moreover, are discovering the advantages of catalog shopping, which offers not only convenience but greater selection

and lower prices. According to another Nikkei survey, the mail order business expanded 13 percent in the April 1987-March 1988 period to more than Y1.2 trillion ($8.9 billion). While hard aggregate numbers are lacking, retail sales watchers say specialty chains -- particularly ones handling men's and women's clothing, shoes and consumer electronics -- also are doing better than the overall industry.

Not unexpectedly, department stores, supermarkets and superstores (hybrid supermarket-discount stores) and other big retail operations are gaining business at the expense of small retailers. What perhaps is astonishing is the slow pace of the process. Between 1980 and 1988 department stores upped their share of total retail sales by only 1 percentage point to 8.4 percent. Supermarkets and other large self-service stores had even more trouble expanding their market inroads, which merely rose from 6.5 percent to 7.3 percent.

But these limited gains are not at all surprising against the backdrop of another set of statistics. Over the 1980-88 period the number of department stores in Japan increased from 325 to just 371. Even more incredibly, only 11 have been added to the total in the last four years (see Table 5). Equally hard to believe, the tally of other big self-service stores, after jumping by 200 to 1,913 in the first half of the 1980s, has expanded by a slim 62 units since the end of 1984.

To most analysts this situation is the direct result of a 1974 law that has been used to blunt the competitive threat of big retailers to small store operators. On paper the legislation, dubbed the Large Retail Store Law, is fairly innocuous. As originally drafted the measure merely required companies planning to build stores with a sales floor space of more than 1,500 square meters (16,146 square feet) to notify the Ministry of International Trade and Industry. In 1979 the reporting threshold was lowered to 500 square meters (5,382 square feet) and prefectural governments were given the right to review plans to open stores of this size up to 1,500 square meters. Whether intended or not, these changes gave local merchants a major say on the expansion of department stores and supermarkets. They could not veto a new store, but they could delay its opening time and again by arguing over such matters as the operating hours, the merchandise sold to be and the sales floor space. Similarly, MITI would not sign off on a large store opening without the go-ahead from local interests.

The 1979 procedural amendments obviously played havoc with the plans of department store and supermarket chains, but their current expansion problems date back to the early 1980s. Having already convinced numerous local governments to declare a moratorium on the opening of big stores, small retailers traded on their support for the Liberal Democratic Party and persuaded MITI in February 1982 to tighten implementation of the Large Retail Store Law. The ministry established new guidelines governing the size of stores that could be opened in cities of varying population and beefed up the consultative role of localities on the opening of big retail operations. MITI also started to use administrative guidance to slow the spread of supermarket chains.

While the MITI crackdown gave many small retailers an extended lease on business, other factors -- some perverse -- also have been working in their favor. For example, the sluggish rise in Japanese retail sales since 1980 would

Table 5: Large Retail Stores in Japan, 1980 and 1985-88*

Department Stores

| Year | Yearend Number of Stores | Yearend Sales Floor Space (1,000 sq. meters) | Yearend Employment (1,000) | Value of Sales** (billion yen) | Distribution of Sales | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Clothing | Food and Beverages | Furniture | Appliances | Other Housewares |
| 1980 | 325 | 5,409 | 168 | Y6,501 | 49.0% | 20.5% | 5.7% | 1.4% | 5.0% |
| 1985 | 360 | 6,201 | 170 | 7,982 | 49.3 | 21.5 | 5.1 | 1.5 | 4.7 |
| 1986 | 365 | 6,310 | 170 | 8,416 | 49.5 | 21.6 | 4.8 | 1.4 | 4.6 |
| 1987 | 368 | 6,414 | 171 | 8,879 | 49.7 | 21.5 | 4.7 | 1.5 | 4.5 |
| 1988 | 371 | 6,563 | 176 | 9,552 | 49.5 | 21.2 | 4.8 | 1.4 | 4.4 |

Other Large Self-Service Stores

| Year | Yearend Number of Stores | Yearend Sales Floor Space (1,000 sq. meters) | Yearend Employment (1,000) | Value of Sales** (billion yen) | Distribution of Sales | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Clothing | Food and Beverages | Furniture | Appliances | Other Housewares |
| 1980 | 1,613 | 7,183 | 194 | Y5,684 | 34.0% | 42.5% | 2.7% | 4.1% | 6.0% |
| 1985 | 1,931 | 8,963 | 220 | 7,299 | 31.4 | 43.7 | 2.3 | 4.5 | 5.8 |
| 1986 | 1,966 | 9,275 | 228 | 7,560 | 31.4 | 43.3 | 2.3 | 4.5 | 6.0 |
| 1987 | 1,975 | 9,514 | 232 | 7,875 | 31.4 | 42.5 | 2.3 | 5.0 | 6.0 |
| 1988 | 1,975 | 9,695 | 236 | 8,332 | 31.5 | 41.9 | 2.3 | 5.3 | 5.9 |

*Defined as stores with 50 or more employees.
**The following average annual exchange rates can be used to convert the yen sales figures: 1980, Y226.74; 1985, Y238.54; 1986, Y168.52; 1987, Y144.64; and 1988, Y128.15.

Source: Ministry of International Trade and Industry

have put a damper on the expansion plans of large chains even in the absence of tighter government regulations. Sales have yet to expand by more than 5 percent in any one year, in part due to the modest growth of consumer spending during the decade but also because a greater proportion of spending is going for services rather than goods. Department stores have done slightly better on average than the overall figure, especially last year when they registered a 6.9 percent gain and industry sales went up only 3.9 percent. Nationwide supermarket/superstore chains, in contrast, have underperformed the market -- again with the exception of 1988 (a 4.6 percent increase).

To attract customers in the slow-growth retail market of the 1980s, big retailers, whether department stores or supermarkets/superstores, have been putting money into remodeling existing stores and upgrading them by installing in-store shops handling trendy products. This has crimped profits in the always thin-margin retail industry. So has the need to computerize store operations to contain costs in labor-intensive retailing and to improve inventory control. Then there is the growing problem of finding attractive, affordable department store and supermarket locations in Japan's soaring real estate market.

Reform Drive Gains Momentum

Whatever the relationship between government regulation of the retail industry and the slow expansion of big retailers, pressure for change is building in Japan. Consumers finally are starting to complain en masse about a system that forces them to pay nearly 50 percent more than Americans for the same basket of goods and services. Corporate Japan has stepped up its campaign for deregulation of the retail industry, with the overhaul of the Large Retail Store Law at the top of its long list of needed changes. Even government agencies and advisory groups are championing reform. Last December, for instance, the Provisional Council for the Promotion of Administrative Reform called for flexible administration of the Large Retail Store Law at both the national and the local level -- a recommendation subsequently endorsed by the cabinet (see JEI Report No. 47B, December 16, 1988).

U.S. trade policymakers have climbed on the bandwagon, too, repeatedly urging the Japanese government to end the restrictions on big retailers or, at a minimum, to ease implementation of the Large Retail Store Law. Their argument is simple: the expansion of department store and supermarket/superstore chains is the key to boosting U.S. exports of consumer goods to Japan. Fleshing out this argument, American officials note that only big retailers generally are in a position to introduce and aggressively promote products made in the United States. Chains are sufficiently independent of Japanese wholesalers and manufacturers to take on the job, and they have the display space, marketing skills and financial resources to do it effectively.

Given the political clout of Japan's small retailers, repeal of the Large Retail Store Law is out of the question for the foreseeable future. The same conclusion applies as well to revising the legislation. That leaves implementation as the only candidate for change. Although there is broad support within the government for more flexibility in the law's application, the specific modifications currently under consideration are sure to fall short of Washington's minimum demands. According to retail industry analysts, a MITI task force report due out in May will not go much beyond recommending that the

ministry scrap its February 1982 "emergency" measures, allow large stores to close later and instruct local governments to end their "excessive" regulation of big retailers.

While the government mulls regulatory changes that might boost imports of consumer goods over the medium term, department stores, supermarkets/superstores, discount houses and specialty chains are exploring new, alternative distribution channels to capitalize on the reduced yen costs of foreign products. These moves only date back three years or so, but they already are having an impact on Japan's retail market. A MITI sample survey of large chains indicated, for example, that 12.5 percent of the merchandise purchased by these retailers in FY 1987 came from overseas.

About one-fifth of the foreign goods bought by the surveyed companies were "development" imports -- the Japanese term for original equipment manufacturer imports or products manufactured abroad to the buyer's specifications and carrying its brand name. Big American retailers have been buying OEM goods for decades, but their Japanese counterparts have discovered the benefits of this procurement strategy only recently. They also have adopted another method long used by major U.S. retail chains to bypass wholesalers: direct imports of foreign brands. A related type of direct imports is on the rise as well -- parallel imports or brand name products obtained overseas independent of foreign manufacturers' sole agents or distributors in Japan.

Along with the fast-exanding volume of consumer goods coming into the country from Japanese manufacturers' offshore plants, the new import channels have offered consumers a modicum of relief from the inflated prices of domestic and foreign products handled by the traditional distribution network. They also have provided substantially wider market opportunities in Japan for Southeast Asian manufacturers, the dominant suppliers of OEM products. The benefits to American consumer goods producers, however, have been slight at best.

The seeming inability of U.S. manufacturers to gain a significant foothold in Japan's retail market despite the evolution of the distribution system, the dollar's fall and years of bilateral discussion increases the pressure in Washington to try to force change through a formal trade action. American frustration is understandable, but the problems of expanded access to the Japanese retail market are not the same as, say, selling more beef and oranges to Japan. Government policies certainly influence the degree of access. They are not the sole cause and perhaps not even the major cause of the limited market successes achieved by U.S. companies.

For further information, contact Susan MacKnight.

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